

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF LICKING VALLEY	)	
RURAL ELECTRIC COOPERATIVE CORPORA-	)	
TION OF WEST LIBERTY, KENTUCKY, FOR	)	
AN ORDER AUTHORIZING AN ADJUSTMENT IN	)	CASE NO. 9475
ITS RETAIL RATES, APPLICABLE TO ALL	)	
CUSTOMERS	)	

O R D E R

IT IS ORDERED that Licking Valley Rural Electric Cooperative Corporation ("Licking Valley") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record, by March 26, 1986, or within 2 weeks after the date of this Order, whichever is later. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

Information Request No. 2

1. With reference to Adjustment No. 1, Normalization of Cost of Purchase Power, provide the computations supporting the \$0 adjustment. The computations should clearly show the test-year actual expense, the normalized expense and be broken down by the type of charge: energy, demand, load center and FAC.

2. With reference to Adjustment No. 4, Normalization of Payroll Costs, provide the computations supporting the normalized test period salaries and wages of \$1,103,369 and the actual test period salaries and wages of \$1,048,287. Include a narrative explanation of any assumptions utilized in the determination of the adjustment of \$55,082.

3. Explain why Licking Valley used the test year ratio of expensed to capitalized wages in the payroll adjustment rather than a historical annual average.

4. With reference to Adjustment No. 5, Payroll Tax Expense, explain why the FICA tax was capitalized at 25 percent.

5. With reference to Adjustment No. 6, Employee Benefits, provide the following information:

a. A narrative explanation for the increase from 7 to 9 percent and computations supporting the annual payment of \$77,946 for retirement insurance.

b. A discussion of the reason for instituting the NRECA savings plan. Provide computations supporting the payment of \$12,149 for the 6-month period ending December 31, 1985.

c. Documentary support of the group health insurance premiums and computations supporting the actual and normalized test period premiums used to determine the adjustment of \$14,617.

6. With reference to Adjustment No. 7, Property Taxes, provide the assessed value on which the test-year property taxes were based.

7. With reference to Adjustment No. 8, General Insurance, provide the following:

- a. Documentary support of the premium for each period.
- b. The reason for using the expensed to capitalized ratios.

8. Provide a discussion of the reasons for increasing the directors' fees and the attorney's retainer.

9. With reference to Exhibit I, does the column labeled "Test Year" represent actual test year results? If not, please explain.

10. Provide the computations supporting the 13-month average of materials and supplies of \$199,140 used in the determination of Net Rate Base, Exhibit N.

11. With reference to Exhibit N wherein the calculation of Net Rate Base is presented using the test year-end balance of prepayments, provide any evidence deemed appropriate as to why a 13-month average should not be used to minimize the effects of fluctuations in this account.

12. Licking Valley's policy is to pay directors a flat fee of \$150 monthly (\$100 prior to July 1985) according to page 1, Exhibit 20. However, board member Mr. Walton Jones received an amount double the monthly fee for the months of November, December, January, February, July and October of the test year. Likewise, board member Mr. Earl May, Jr., received an amount double the monthly fee for June. Please explain this discrepancy.

13. Please reconcile the operating expenses as reported for the test year in Exhibit I with the operating expenses reported in Exhibit 16. Test-year operating expenses in Exhibit I are

\$8,966,628 and test-year operating expense excluding interest in Exhibit 16 are \$9,063,208.

14. With reference to the Right of Way-Maintenance Contract, Account No. 593.2 shown in Exhibit 16, page 2, provide the following:

a. A discussion concerning the necessity for this contract.

b. The terms of the contract.

c. The expense category in which the \$147,273.80 test year expense is reported in Exhibit I.

15. With reference to the Consumer Records, CADP expense Account No. 903.1 shown in Exhibit 16, page 2, provide the following:

a. A discussion of this expense.

b. The expense category in which the \$68,736.04 test year expense is reported in Exhibit I.

16. Provide an explanation of why the 12-month period ending October 31, 1985, was used as the test year in this application.

17. In recent electric cooperative proceedings before the Commission, the Commission has determined that a TIER level of 2.0 is appropriate under existing economic conditions. Explain the factors considered by Licking Valley in determining to request a 2.25 TIER. Also, provide any evidence deemed appropriate as to why the Commission should deviate from recent decisions and grant a TIER in excess of 2.0 in this instance.

18. Provide any information available with regard to Licking Valley's plans to begin rotation of capital credits. Include any

board resolutions or minutes of board meetings where this issue has been discussed in the past 5 years.

19. Has Licking Valley adopted an equity management plan? If yes, what are the goals of that plan?

20. The following questions relate to the testimony of Mr. David J. Hedberg, specifically page 36 and DJH, Exhibit 8 showing that Licking Valley's "optimum" equity level is 49 percent as determined by CFC.

a. Why do Licking Valley's directors feel comfortable with an equity level of 40.8 percent rather than the "optimum" level?

b. Why does DJH, Exhibit 5, page 3, provide for capital credit refunds beginning in 1986 at an equity level of 40.84 percent rather than waiting until the "optimum" level is achieved?

21. On page 8 of Mr. Cope's testimony, explain why the load research prepared by East Kentucky Power for its entire system is inadequate to use for the allocation of demand for Licking Valley's system. Provide any workpapers, statistical analysis or descriptive analysis explaining the uniqueness of Licking Valley's residential customers when compared to the residential customers in the remaining RECC's in the East Kentucky system.

22. In preparing the cost of service study what alternative sources of load data were considered? Did Mr. Cope consider borrowing PURPA load research data from Kentucky Utilities? If not, explain the basis for this decision.

23. Recalculate Exhibit L (normalized revenue) using currently existing rate design rather than proposed rate design. Provide the effect of this recalculation on Exhibits I and J.

24. Refer to Exhibit L, page 3. How many customers from Rate Schedule E are being transferred to the Farm and Home Rate Schedule? Wouldn't more customers in Rate Schedule A necessitate a lower customer charge?

25. Provide the calculation used in computing the proposed customer charge in Schedule A.

26. Refer to Exhibit L, page 8. Explain the \$3.91 demand charge contained in proposed Rate Schedule LPR and how it was determined.

27. a. Assuming that Licking Valley follows the depreciation guidelines as outlined in REA Bulletin 183-1, Account No. 394, Tools, Shop and Garage Equipment, the depreciation rate listed in Exhibit J, page 4 of 22, is 10 percent. According to the REA Bulletin this account belongs under Other General Plant and the range of the depreciation rates for this is 3.6 to 6 percent. Why is the rate out of the given range given by the REA Bulletin?

b. The depreciation rate range listed in Exhibit 4, page 9 of 12, for Transportation Equipment is 10 to 33.3 percent. The range for this according to the REA Bulletin is 14 to 17 percent. Please explain why the guideline rates were not used for this account.

28. Does Licking Valley follow the depreciation rates and procedures as described in REA Bulletin 183-1?

29. Provide information for plotting the depreciation guideline curves in accordance with REA Bulletin 183-1. Furnish the data in the format shown on the attached data sheet No. 1.

30. Does Licking Valley propose any changes in depreciation rates?

31. Furnish a list of depreciation expenses in the format shown on the attached data sheet No. 2.

Done at Frankfort, Kentucky, this 12th day of March, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Wernau  
For the Commission

ATTEST:

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Secretary

DATA FOR  
DEPRECIATION GUIDELINE CURVE  
PBA BULLETIN 183-1

Utility:  
Case Number:  
Date:

Year Ended December 31, 1985	Distribution Plant in Service (1)	Accumulated Provision for Depreciation Distribution Plant (2)	Reserve Ratio (3)=(2)/+	Ratio of Current Distribution Plant to Distribution Plant Ten Years Prior
1985				1985
1984				1984
1983				1983
1982				1982
1981				1981
1975				
1974				
1973				
1972				
1971				



Utility:  
Case Number:  
Date:

Account No.	Item	(End of Test Year) Plant Account Balance	Depreciation Rate	Annual Depreciation
<u>TRANSMISSION PLANT</u>				
350000	Land & Land Rights			
355000	Poles & Fixtures			
356000	O/H Conduct. & Devices			
<u>DISTRIBUTION PLANT</u>				
360000	Land & Land Rights			
362000	Station Equipment			
364000	Poles, Towers, Fixtures			
365000	O/H Conduct. & Devices			
366000	Underground Conduit			
367000	U/C Conduct. & Devices			
368000	Line Transformers			
369000	Services			
370000	Meters			
371000	Install. on Cust. Premises			
372000	Leased Prop. on Cust. Prem.			
373000	St. Light & Sign Systems			
<u>GENERAL PLANT</u>				
389000	Land & Land Rights			
390000	Structures & Improvements			
391000	Office Furn. & Equipment			
391100	IBM 5251 Display Stations			
392000	Transportations Equip.			
393000	Stores Equipment			
394000	Tools, Shop, Garage Equip.			
395000	Laboratory Equipment			
396000	Power Operated Equipment			
397000	Communications Equipment			
398000	Miscellaneous Equipment			